Homeowner
Protection Office

Service Plan
2002-2005

As of December 31, 2001

TABLE OF CONTENTS

Service Plan Diagram 1

Executive Summary 2

Strategic Foundation 3

Corporate Overview 3

Planning Context 5

Financial Plan 2002-2005 6

Performance Measures 8

Licensing and Warranty 9

- Licensing - Service Plan
- Warranty - Service Plan

Research and Education 12

- Consumer Information - Service Plan
- Research: New and Improved Technology - Service Plan
- Education and Training for Industry - Service Plan

Financial Assistance 16

- Financial Assistance - Service Plan

National Library of Canada Cataloguing in Publication Data

British Columbia. Homeowner Protection Office.

Service plan. — 2002/2005-

Annual

Continues: British Columbia. Homeowner Protection Office. Performance plan. ISSN 1496-2691.

ISSN 1499-7789 = Service plan – British Columbia. Homeowner Protection Office

1. British Columbia. Homeowner Protection Office – Periodicals. 2. Home ownership – Government policy - British Columbia - Periodicals. 3. Consumer protection - British Columbia - Periodicals. I. Title. II. Title: Homeowner Protection Office service plan.

HD7287.82.C32B732 353.5'5 C2002-960004-9

SERVICE PLAN *As of December 31, 2001*

Mission

- **Increase consumer protection for homeowners and homebuyers**
- **Improve the quality of residential construction in British Columbia**

Inputs

Financial resources, trained staff, facilities

	Programs		
	[illegible] and Warranties	**Research and Education**	**Financial Assistance**
Strategies and Activities	• Introduction, compliance and monitoring of licensing and warranty insurance regulations for new residential construction and building envelope renovations • Mediation regulations for residential construction disputes implemented • Education requirements planned for licensing	• Building science research projects • Technology transfer to construction industry • Consumer information disseminated • Provincial Advisory Council on Homeowner Protection	• No-interest repair loan applications received • PST Relief Grant applications received for completed building envelope repairs • Advice on financial assistance provided to homeowners
Outputs	• Residential builders and building envelope renovators licensed • Public registry of builders and renovators on Web site • Homes built under the *Homeowner Protection Act* • Increased compliance • Public list of new homes planned	• Building science studies completed and underway • Research results disseminated at industry symposium • Publications and seminars for consumers and industry available • Provincial Advisory Council advising the HPO • Repair process seminars attended • On-site sessions for strata owners given • People served by 1-800 line • Visits to Web site	• Homeowner loans approved • Co-operative housing loans approved • PST Relief Grants approved
Outcomes Immediate	• Creation of a more "level playing field" for builders • Builders must meet minimum standards • Consumers protected by an insurance product • Insurance companies require financial stability and quality construction from builders • Construction disputes mediated	• Consumer information and assistance available • Research projects set framework for construction improvements • Increased awareness of construction and consumer protection issues	• Homeowners keep homes who otherwise might have lost them • Availability of financial assistance facilitates more rapid approval of repairs • Only viable, long-term repair solutions selected
Intermediate (Goals)	• Increasing licensing standards improves quality of construction • Greater number of consumers benefit from licensing and warranty insurance requirements • Homes with premature building envelope failures repaired – value adjusted	• Consumers able to make more informed decisions • Results of building science studies communicated to industry – construction quality increases • Reduced occurrence of construction defects	• Increased value in repaired homes • Fewer repair loan applications anticipated over time • Loans repaid

Ultimate (Strategic objectives)

- Homeowners and homebuyers better protected
- Improvement in the quality of residential construction
- Consumer confidence in residential construction industry restored

EXECUTIVE SUMMARY

This Service Plan for the Homeowner Protection Office (HPO) is prepared in accordance with the requirements of the *Budget Transparency and Accountability Act* and lays out our plans for the next three years. It is important to note that as of the printing date of this plan, the HPO has not made a presentation to the Core Review and Deregulation Task Force. Consequently, this plan assumes a continuation of our existing mandate and of our service delivery model.

The creation of the Homeowner Protection Office (HPO) in October 1998 began a fundamental shift towards improved consumer protection for homebuyers and homeowners as well as a stronger residential construction sector in British Columbia. The licensing of residential builders and building envelope renovators through the HPO, coupled with mandatory, third-party warranty insurance, creates a public-private sector partnership that sets the framework for raising the professionalism of homebuilders and increasing the quality of construction. The HPO will work to ensure buyers of new homes are satisfied with the protection provided by the warranty insurance mandated by the *Homeowner Protection Act* (the *Act*). As well, we will focus our compliance efforts on leveling the playing field for homebuilders and obtaining voluntary compliance with the *Act*.

The end of 2001 marks a change in focus for the office. The HPO will devote more of its efforts toward increased professionalism for homebuilders and improved residential construction quality issues and less on issues involving building envelope failures. Although leaky condos remain an important issue with an estimated 25,000 homes still to be repaired, declining participation at our previously well-attended public Condominium Repair Process Seminars indicates that the saturation point has been reached. Consequently, the office will now rely on evening on-site strata meetings at individual leaky buildings as the means of providing education on the repair process and financial assistance programs. We will continue to provide no-interest loans and PST Relief Grants to help homeowners avoid foreclosures due to the cost of building envelope repairs. Over time, the value of these repaired homes will increase.

Homebuilders and consumers are also the beneficiaries of the research and education activities of the office, which are improving the quality of building design and construction. The HPO will continue to work in partnership with industry, educational institutions and other government organizations to focus new research and education initiatives on issues important to British Columbia. The HPO will work with these partners to secure investments by them of at least twice the amount invested by the HPO in these projects. Through participation on National Building Code committees and by participating in the development of training courses and materials to support best practices, the HPO will ensure research results are put into practice and ultimately improve the quality of construction.

The HPO has identified challenges and opportunities it will face in the future. First and foremost, the outcome of the provincial core services review will chart the course for the regulation of homebuilding and the protection of homebuyers in British Columbia in the future. This review also provides an opportunity for necessary legislative change to effectively correct abuse of the owner-builder exemption from licensing and warranty insurance requirements and other changes which can make the legislation more effective for the industry. Optimism for the homebuilding industry is coming from recent gains in the number of housing starts and home sales following dramatic cuts in mortgage rates in 2001. All forecasts point to rising starts and improved sales over the next few years. This is good news for both the HPO and the broader provincial economy, which depend on the revenues this important industry provides.

Sincerely,

Dan Maxwell
Acting Chief Executive Officer

STRATEGIC FOUNDATION

Strategic Foundation

The Homeowner Protection Office's vision, mission and values form the basis of our operational planning, implementation and maintenance of our program areas.

Our Vision

A responsive Crown corporation leading an improvement in the quality of residential construction and increased homeowner protection in British Columbia.

Our Mission

To restore confidence in British Columbia's residential construction industry by:

- Administering the residential builder licensing system
- Establishing the framework for and monitoring the mandatory, third-party home warranty insurance system
- Maintaining a research and education function to benefit the residential construction industry, homeowners and homebuyers, and
- Providing financial assistance to owners of leaky homes.

Our Values

We are guided by our commitment to:

- Integrity
- Fairness
- Responsiveness
- Accountability, and
- Teamwork

CORPORATE OVERVIEW

The Homeowner Protection Office (HPO) is a provincial Crown corporation formed in 1998 in response to the need to introduce basic consumer protection legislation and regulatory improvements within the residential construction sector. The HPO was established under the *Homeowner Protection Act (Act)* which was passed on July 28, 1998 for the main purposes of strengthening consumer protection for new home buyers and improving the quality of residential construction in the province. The Homeowner Protection Office officially opened on October 1, 1998.

The HPO is responsible for:

- residential builder and building envelope renovator licensing province wide
- establishing the framework for and monitoring the mandatory, third-party home warranty insurance system
- a research and education function designed to benefit the residential construction industry and consumers, and
- administering the no-interest repair loan and PST Relief Grant programs for owners of leaky homes.

Key clients of the HPO are homebuyers, homeowners (particularly owners of leaky homes), developers, residential builders and building envelope renovators. In undertaking its activities the HPO also works closely with warranty insurance providers, architects, engineers, property managers, the legal community, research organizations, building inspectors, governments including local governments and the Canada Mortgage and Housing Corporation (CMHC), real estate professionals and financial institutions.

The HPO is self-funded primarily from builder license fees. The research and education function is funded through builder licensing fees and, initially, from sector organization contributions. The Government of Canada through the CMHC provides a contribution to the Homeowner's Reconstruction Loan Program equal to fifty percent of the program's expenditures net of interest revenue. Over the first ten years, the Homeowner's Reconstruction Loan Program expenditures are expected to total about $107 million. The total contribution from the Government of Canada will not exceed $27.7 million. The PST Relief Grant program is administered by the HPO on behalf of the provincial government on a cost recovery basis.

ORGANIZATION CHART

KEY RESPONSIBILITIES OF HPO OFFICERS

Director, Licensing and Registrar

- license residential builders and building envelope renovators
- maintain registry of licensed builders
- ensure compliance with licensing standards and regulations
- collect license fees

Director, Research and Education

- support building science research
- support consumer and industry education
- advise government and City of Vancouver on amendments to building code
- support the establishment of guidelines for "best practices" for building

Chief Operating Officer

- administration of HPO
- manage the Reconstruction Fund and PST Relief Grant
- financial management of HPO including annual financial statements
- Board administration

* The Provincial Advisory Council on Homeowner Protection provides policy advice to the CEO relating to the *Homeowner Protection Act* and operation of the HPO.

PLANNING CONTEXT

The Homeowner Protection Office (HPO) has identified key external factors which may impact its operations and vision to increase consumer protection for homebuyers and bring about an improvement in the quality of residential construction.

Outcome of the Core Services Review: The HPO, like all Crown corporations, agencies, boards and commissions is participating in the provincial core services review. All entities subject to the core review process must address three key questions for each mandate area:

- Is there a compelling public interest to continue?
- Is it affordable?
- Must the provincial government deliver the program?

Strong support for all program areas of the HPO was received from nearly all stakeholders in recent consultations. The HPO will make its presentation to the Core Review and Deregulation Task Force, chaired by the Premier, early in 2002. A decision by the task force is expected shortly after the presentation which may, or may not, have an impact on the HPO's future operations or delivery mechanisms.

Owner-Builder Exemption Abuse: Since July 1, 1999, regulations for new residential construction exempt owner-builders from licensing and mandatory home warranty insurance requirements. Although the regulations stipulate that only individuals building a detached dwelling for their own personal use are eligible for the exemption once in any 18-month period, some land owners and unscrupulous builders are abusing the system to avoid the licensing and warranty insurance requirements put in place to protect consumers. At one time, about 40% of all building permits issued for detached dwelling units were for owner-built homes. The HPO's monitoring and enforcement efforts indicated that an estimated 35% of these applications for owner-builder exemptions may not have complied with the *Homeowner Protection Act*. Abuse of the owner-builder exemption results in:

- inadequate consumer protection (false owner-builder exemptions mean that new homes are constructed without meeting the requirements for licensing and warranty insurance)
- unfair competition for licensed builders who play by the rules
- smaller underwriting pools for home warranty insurance providers, which can result in higher premiums for coverage, and
- less financial resources available for the administration of the consumer protection regulations because licensing fees are not being collected.

The HPO has increased its compliance efforts and revised the owner-builder exemption application process to reduce the occurrences of abuse. These efforts have successfully decreased the number of owner-builder detached dwelling building permits from 40% to under 30%. However, legislative changes will likely need to be implemented to significantly reduce this illegal activity.

Modest Improvement to Low Number of Housing Starts: The Homeowner Protection Office is self-funded primarily through licensing fees. A low number of housing starts in B.C. results in fewer licensed builders and less fees collected to monitor and ensure compliance with the *Homeowner Protection Act* and regulations for both new home construction and building envelope renovations. A low level of revenue also restricts the performance of other program areas of the Homeowner Protection Office such as building science research and consumer information programs.

Last year marked the lowest housing starts since the early 1960's. The current year is showing a modest improvement from these very low levels and the outlook for next year is for further gains. The dampening effects of the softwood lumber dispute, government restraint, and the September 11, 2001 terrorist attacks have been offset by the dramatic cuts in interest rates. With mortgage rates about 3% lower than they were last year, housing sales have increased substantially from last year. Increases in housing starts are good for the industry and serves to increase the strong financial footing of the office.

Demand for No-interest Repair Loans: Since the HPO's inception in October 1998, the office has approved no-interest repair loans totaling $197 million in financial assistance. The demand for this program continues to be strong. The HPO pays the cost of no-interest loans and deferred payment loans on

behalf of the homeowners. Fortunately, the unexpected decline in interest rates has offset the higher costs from the increase in expected demand for loans. Over the first ten years of the Homeowner Reconstruction Loan Program, it will cost the HPO $107 million to provide this financial relief. The operating funds for these payments come from a $750 fee charged to builders for each multi-unit home constructed in the same geographic areas where leaky condos exist and from the federal government. Given the current level of housing starts, the HPO must continue to rely on bridge financing to meet the demands of the program.

Demand for Building Envelope Renovations: Given the high number of building envelope renovations required over a relatively short period of time and the seasonal nature of the work to be performed, the demand for repairs may exceed the supply of both licensed building envelope renovators backed by home warranty insurance and building envelope consultants. Delays in repairs to affected buildings can result in higher repair costs for homeowners and create further demand on the HPO's no-interest loan program.

Rising Insurance Costs: One more consequence of the September 11, 2001 terrorist attacks is that the cost of all types of insurance is set to rise. The providers of re-insurance, which is used by insurance companies to reduce risk, have suffered substantial losses that they will now try to recoup from future premiums. Residential builders are likely to pay more for home warranty insurance, which will likely translate into higher prices for consumers.

FINANCIAL PLAN 2001–2005

The budget presented below as Table 1 represents the forecast of revenue and expenditures of the Homeowner Protection Office (HPO) for 2001/2002 through 2004/2005.

The budget has been developed with two main factors in mind. First, the HPO must be self-sustaining from its own revenues. Consequently, the forecast of builder license fees, new construction and building envelope renovation activity, as shown in Table 2, determines the funding available to operate the HPO's programs other than the Reconstruction Program which provides financial assistance. As the housing market strengthens, an increase in the number of housing starts and a corresponding increase in builder licences is expected over time with the largest yearly increase anticipated in 2003/2004. Second, the Reconstruction Program must provide financial assistance to all eligible homeowners. Consequently, as shown in Table 3, the Reconstruction Program is expected to generate deficits in the first few years when demand for no-interest loans is greatest. By 2003/2004, once the majority of the leaky homes have been repaired and the demand for new loans decreases, the Reconstruction Program is expected to generate annual surpluses. Over a ten-year period, the program will generate sufficient surpluses to make payments on the loan from the Province and prepare for the retirement of the outstanding loan liabilities.

A joint service delivery model involving warranty providers and financial institutions is in place for the licensing and warranty insurance program as well as the financial assistance program. The involvement of private sector partners minimizes HPO administrative costs for these programs.

The HPO's research and education function is funded by builder license fees and contributions from sector organizations. The HPO seeks to lever and pool additional funding from key stakeholders as a way of maximizing available funding for needed research and education projects. By working in partnership with other stakeholder organizations, the HPO has been successful in levering over $1 million in additional funding for research and education purposes.

Table 1: Homeowner Protection Office Budget Forecast

	2001/2002 Forecast (000's)	2002/2003 Budget (000's)	2003/2004 Budget (000's)	2004/2005 Budget (000's)
REVENUE				
Builder license fees	$ 1,859	$ 1,920	$ 2,215	$ 2,488
Reconstruction fee	3,200	6,300	8,750	10,500
Provincial contributions for PST program	3,500	5,915	5,165	5,165
Federal contribution for loan program	7,598	6,837	4,311	0
Interest	124	49	90	79
Loan discount recoveries *	1,577	915	933	933
Total Revenue	**17,858**	**21,936**	**21,464**	**19,165**
EXPENDITURES				
Grants to owners of leaky homes	10,676	10,330	5,759	5,040
Interest subsidy for no-interest loans	3,650	6,050	10,675	9,737
Salaries and wages	1,976	2,048	1,866	1,766
Loss provision on no-interest loans	1,838	1,615	309	0
Operating expense	1,547	1,571	1,459	1,496
Interest expense	761	769	1,257	1,257
Total Expenditures	**20,448**	**22,383**	**21,325**	**19,296**
Surplus (Deficit)	**($ 2,590)**	**($ 447)**	**$ 139**	**$ (131)**

*The non-cash accounting entry required to amortize deferred payment loans appearing on the balance sheet of the HPO.

Table 2: Residential Builder Licensing and Construction Activity Forecast

The budget plan is based on the following forecast for licensing and construction activity for both new home construction and building envelope renovations in British Columbia.

	2001/2002	2002/2003	2003/2004	2004/2005
Number of new residential builder licences ($600 fee)	789	800	870	1,050
Number of residential builder licence renewals ($500 fee)	1,907	1,980	2,136	2,215
Number of new homes constructed and subject to $25 fee	17,231	18,000	25,000	30,000
Number of new homes constructed and subject to $750 levy	4,209	8,400	11,667	14,000

Table 3: Reconstruction Program

The budget plan is also based on the following forecast for the Reconstruction Program over the first 10 years of the program.

10 Year Forecast
($ Millions)

	99/00 Actual	00/01 Actual	01/02 Forecast	02/03 Forecast	03/04 Forecast	04/05 Forecast	05/06 Forecast	06/07 Forecast	07/08 Forecast	08/09 Forecast	Total Forecast
Total Revenue	$ 0.9	$ 12.4	$ 12.3	$ 14.1	$ 14.1	$ 11.8	$ 11.5	$ 11.5	$ 11.5	$ 11.6	$ 111.7
Total Expenditures	($ 5.2)	($ 12.0)	($ 15.1)	($ 14.6)	($ 13.8)	($ 11.8)	($ 10.5)	($ 9.4)	($ 8.1)	($ 6.8)	($ 107.3)
Surplus (Deficit)	($ 4.3)	($ 0.4)	($ 2.8)	($ 0.5)	$ 0.3	$ 0.0	$ 1.0	$ 2.1	$ 3.4	$ 4.8	$ 4.4
Total Loans Outstanding	$ 27.9	$ 78.7	$ 132.6	$ 191.6	$ 199.3	$ 180.1	$ 160.9	$ 141.8	$ 122.6	$ 103.5	
Reconstruction Fund Balance	$ 1.4	$ 2.5	$ 0.8	$ 2.0	$ 1.8	$ 1.5	$ 1.6	$ 2.4	$ 2.6	$ 2.8	
Indemnified Third-party Debt	$ 22.4	$ 55.7	$ 89.7	$ 111.5	$ 102.2	$ 88.1	$ 74.1	$ 60.0	$ 45.9	$ 31.9	
Due to Province	$ 10.0	$ 15.0	$ 22.4	$ 27.9	$ 27.9	$ 27.9	$ 26.9	$ 25.4	$ 21.9	$ 16.9	

Licensing and Warranties

Revenue = $2.27 million, Expenditures = $1.98 million, FTEs* = 20.3†

Goals / Objectives	Performance Measures	Targets
• Homeowners are protected by warranty insurance on their homes	• Homeowner satisfaction	• High percentage of homeowners satisfied with protection provided by their warranty insurance *
• Improvement in the quality of residential construction	• Homes built under the *Homeowner Protection Act* are of good quality	• Low percentage of homes with warranty insurance claims *
• Creation of a more "level playing field" for residential builders	• Residential builder compliance with the *Homeowner Protection Act*	• 70 percent of investigations result in voluntary compliance
• Responsive licensing system for residential builders and building envelope renovators	• Timeliness of licensing decisions	• 5 business days for licensing decisions on complete applications
• Increased awareness of consumer protection issues	• Homebuyer awareness of licensing and warranty insurance requirements	• High level of awareness of licensing and warranty insurance program among new home buyers *

Research and Education

Revenue = $0.4 million, Expenditures = $0.4 million, FTEs* = 3.1†

Goals / Objectives	Performance Measures	Targets
• Research and education projects are planned and managed in partnership with the residential construction industry	• HPO facilitates and expands research and education partnerships	• At least twice the amount invested by the HPO is invested in these research projects by other partners
• Industry and consumers have access to research results and improved technology	• Research results disseminated	• During each two-year cycle, HPO participates in one major symposium or publication and twelve educational sessions
• Building science research projects will help set framework for improvements in residential construction	• Research results incorporated into building standards and best practices	• HPO participates on National Building Code committees and in development of best practice guides and training courses

Financial Assistance

Revenue = $19.27 million, Expenditures = $20.0 million, FTEs* = 13.6†

Goals / Objectives	Performance Measures	Targets
• Provide financial assistance to help homeowners avoid foreclosures due to the cost of building envelope repairs	• Homeowners with loans don't lose their homes	• Default rate of 4% or less for homeowners with loans
• Value of homes will increase accordingly once homes are repaired	• Assessed values of repaired homes increase	• Assessed values of homes increase following completion of repairs

* FTE = Full-time equivalent staff
† Based on 2002-2003 budget
* Baseline data to be collected in 2002-2003.

LICENSING — SERVICE PLAN

Strategies and Activities

The *Homeowner Protection Act* provides for licensing and mandatory, third-party home warranty insurance requirements for new home construction and building envelope renovations. The regulations for new home construction were implemented on July 1, 1999 which requires all residential builders to be licensed by the Homeowner Protection Office and provide home warranty insurance prior to obtaining a building permit. In geographic areas where building permits are not required, licensing and arrangements for home warranty insurance must occur prior to the commencement of construction. On September 30, 2000, similar regulations were brought into force requiring contractors who act as building envelope renovators to be licensed by the HPO and provide home warranty insurance on building envelope renovations.

Province-wide information sessions on the requirements for licensing and home warranty insurance as well as on-going assistance available through the HPO's 1-800 information line have increased the awareness of these new consumer protection regulations.

The Homeowner Protection Office has been monitoring the licensing requirements since these regulations were brought into force to ensure consumers are protected. In future years, it is anticipated that education and training will become an added requirement for licensed residential builders and building envelope renovators. The HPO will work closely with the industry to develop these requirements and the most effective methods to disseminate new technology.

Outputs

As of December 31, 2001, the HPO had licensed 2,718 residential builders and 85 building envelope renovators. A daily-updated public registry of licensees is available on the HPO Web site.

In addition to the licensing and registration staff located at the HPO, nine compliance officers work full-time in the field. These officers conduct site visits throughout the province to ensure compliance to the consumer protection regulations. Non-compliance cases, which most often involve false owner-builder exemptions from licensing and warranty, are investigated and penalties are issued when applicable. Offences under the *Homeowner Protection Act* carry penalties upon conviction of up to $25,000, up to one year of imprisonment or both for individuals. Penalties for corporations can be up to $100,000.

In May 1999, regulations for the mediation of residential construction disputes were passed. This regulation is retroactive and allows any party to an action to compel the other parties to a mediation session prior to the scheduled trial date.

A list of new homes built by licensed residential builders that have the stronger 2-5-10 year home warranty insurance and homes built by owner-builders is planned for the Web site in the future.

OUTCOMES
Immediate

The licensing and warranty provisions of the *Homeowner Protection Act* work in tandem to ensure that builders meet minimum standards and, if a construction defect occurs, the homeowner is protected by home warranty insurance. The licensing and warranty requirements create a more level playing field for the industry and increase builder accountability.

Non-compliance cases are continually investigated by the HPO. In most cases, unlicensed builders in violation of the *Homeowner Protection Act* are convinced to become licensed and provide home warranty insurance to homebuyers. In other cases, charges have been laid and licences have been restricted, suspended or canceled by the HPO registrar.

The public registry of licensed residential builders and building envelope renovators which is available on the HPO Web site enables the public to check the status of any licensee. Data collected from the licence applications assists the HPO to develop profiles of licensed builders and identify what training might be required in the future as a condition of licensing.

The mediation regulations allow one party of a residential construction dispute to compel the other parties to participate in a mediation session. Mediation often provides a more cost-effective and rapid method to settle residential construction disputes when compared with the court system. A high percentage of leaky condo disputes are being mediated.

Intermediate *(Goals)*

As time progresses, residential builders who initially were working on projects that are not subject to the licensing and warranty requirements (homes built with building permits applied for prior to July 1, 1999), will eventually become licensed in order to work on new projects that are subject to the consumer protection regulations. As a result, more residential builders will become licensed over time.

Since residential builders and building envelope renovators must now meet minimum standards, construction quality will increase and consumer confidence in the homes built and renovated by licensed builders will increase. Homes suffering from premature building envelope failures will also be repaired and the value in those homes will increase accordingly.

It is anticipated that an education and training component will be developed in the future and will become an added requirement of licensing. This requirement will ensure licensees are aware of technologies that will promote further increases in the quality of construction over the long-term.

Ultimate *(Strategic objectives)*

Licensing and warranty requirements for both new home construction and building envelope renovations brings about increased consumer protection and improved residential construction both in the short-term and long-term.

As homes suffering from premature building envelope failures are repaired and new homes are built to higher standards, consumer confidence will be restored in the residential construction industry.

WARRANTY — SERVICE PLAN

Strategies and Activities

The *Homeowner Protection Act* and regulations provide for licensing and mandatory, third-party home warranty insurance for new home construction and building envelope renovations. The Homeowner Protection Office is responsible for setting the standards for and monitoring the home warranty insurance system.

New homes constructed with building permits applied for on or after July 1, 1999 and building envelope renovations with building permits applied for after September 30, 2000 are subject to the licensing and mandatory home warranty insurance regulations. In geographic areas where building permits are not required, home warranty insurance must be in place prior to the commencement of construction.

Owner-builders, which are defined as persons who build detached dwelling units for their own personal use not more than once in any 18-month period, are exempt from the licensing and home warranty insurance requirements. However, owner-builders are deemed to agree to a 10-year statutory protection which makes them personally liable to subsequent purchasers for defects in the home. About 33% of the building permits issued in the province for detached dwelling units involve owner-builder exemptions. Significant numbers of these building permits continue to involve false or misleading owner-builder declarations. The majority of the HPO's compliance efforts are spent monitoring this exemption to ensure consumer protection.

The HPO meets regularly with stakeholders to provide information and discuss emerging warranty issues. Warranty information is also disseminated to the industry, homeowners and the general public through the toll-free information line, the Web site and through the distribution of print materials.

Outputs

Building permits for 29,843 new homes have been applied for under the *Homeowner Protection Act* and regulations. New homes constructed by licensed residential builders are now covered by the strongest construction defect warranty in Canada which includes 2 years on labour and materials, 5 years on the building envelope and 10 years on structure. Homes with applicable building envelope renovations are covered by home warranty insurance which includes 2 years on labour and materials and, if 60% or more of any wall is replaced, a 5-year water penetration warranty is also provided.

Home warranty insurance can only be provided by insurance companies approved by the Financial Institutions Commission and meeting the requirements of the *Homeowner Protection Act*. Five insurance companies are currently approved to provide home warranty insurance in the province.

Although owner-builders are not required to provide home warranty insurance on the homes they build for themselves, they are subject to the statutory protection provisions of the *Homeowner Protection Act*.

Non-compliance cases, which most often involve false, fraudulent or misleading owner-builder declarations, are investigated by the HPO to ensure consumer protection. Offences under the *Homeowner Protection Act* include penalties upon conviction of up to $25,000, imprisonment of up to one year or both for individuals. Corporations can receive penalties of up to $100,000.

British Columbia is currently in a home warranty transition period. Some new homes on the market are built by licensed residential builders and have the stronger mandatory 2-5-10 year home warranty insurance required by the *Homeowner Protection Act*. Other new homes built before the consumer protection regulations were implemented, have a variety of different warranties, or no warranties at all.

The Notice of Home Warranty regulations were brought into force to address this warranty transition period. As of August 1, 2000, vendors of new homes built with building permits applied for before the licensing and mandatory home warranty insurance regulations came into effect on July 1, 1999, must provide homebuyers with a Notice of Home Warranty before accepting an offer to purchase the home. The Notice indicates the type, extent and expiration dates of any existing home warranty.

A standard 2-5-10 year warranty logo has been trademarked by the HPO for use by licensed residential builders in their efforts to market homes that meet the requirements of the *Homeowner Protection Act*.

OUTCOMES

Immediate

As a result of the mandatory home warranty insurance required for both new home construction and building envelope renovations, consumers are now better protected.

Since the warranty insurance providers are ultimately responsible for repairing defects in the home, they have risk-management strategies that help ensure quality construction. This increased quality is ensured through strict underwriting practices which require the review and approval of the builders' experience, expertise, sub-trades used and design plans. On-site inspections for quality construction are also conducted by warranty insurance providers. Under this system, high-risk builders are unable to get home warranty insurance and, therefore, cannot meet the licensing requirements of the Homeowner Protection Office.

The warranty insurance providers' obligation to provide a claims adjustment process and repair applicable defects in the home also ensures the selection of viable, long-term solutions for building envelope renovations and prevents homeowner-funded multiple repair attempts.

Warranty conditions such as standards of coverage, exclusions, and limits on coverage are now set by government. The regulations also require warranty insurance providers to repair construction defects within a reasonable period of time.

Intermediate *(Goals)*

As time progresses, a greater number of homes will be protected by home warranty insurance. Fewer construction defects and claims will occur since the quality of construction will be ensured by the warranty insurance providers which are financially responsible for repairs.

Claims activity will continue to be monitored by the HPO to ensure the third-party home warranty insurance system is effective and adequately protects the consumer. Over time, the extent of the owner-builders' obligation to subsequent purchasers under the statutory protection requirements will be determined through private court actions.

Resale values of homes might also be affected by the home warranty insurance requirements. If a portion of the home warranty insurance is still in place at the time of sale, the homebuyer can rely on the warranty insurance provider to repair applicable defects in the home.

The introduction of the Notice of Home Warranty regulations and the standard 2-5-10 year warranty logo will decrease homebuyer confusion.

Ultimate *(Strategic objectives)*

All new homebuyers will be protected by a warranty. Homes built by licensed residential builders will have the 10-year home warranty insurance. All owner-built homes will have the 10-year statutory protection which makes the owner-builder personally liable to subsequent purchasers for defects in the home.

The warranty insurance providers' financial obligation to repair defects and the resulting stringent underwriting practices will continue to bring about an improvement in the quality of residential construction. The increased consumer protection combined with an improvement in the quality of construction will bring about a renewal of confidence in the residential construction industry.

RESEARCH AND EDUCATION — SERVICE PLAN

The research and education service plan includes three components: consumer information, new and improved technologies, and education and training.

CONSUMER INFORMATION — SERVICE PLAN

Strategies and Activities

The Homeowner Protection Office is responsible for a research and education function to benefit homeowners and the residential construction industry.

Consumer information guides and bulletins have been developed and distributed to assist homebuyers and owners of leaky homes.

Free repair process seminars for owners of leaky homes and property managers were held in the Lower Mainland and the southern part of Vancouver Island. Topics included financial assistance available to homeowners, the building envelope, the regulations for licensing and mandatory home warranty insurance for building envelope renovations and legal considerations. On-site strata meetings will now replace these sessions.

The HPO's Web site and toll-free information line provides a wide variety of information to homeowners and the residential construction industry.

Outputs

Consumer information publications and bulletins developed include: *Buying a New Home: a Consumer Protection Guide*, *Managing Major Repairs* which was created in partnership with the Ministry of Municipal Affairs and the Canada Mortgage and Housing Corporation (CMHC), Understanding Home Warranties, and highlights of the regulations for licensing and warranty insurance, home warranty disclosure and the mediation of residential construction disputes.

About 1,400 owners of leaky homes and property managers attended the HPO's repair process seminars. Bulletins distributed to attendees include advice on hiring contractors, building envelope consultants and lawyers as well as infor-mation on the cost and process to manage a major building envelope renovation.

The HPO also has participated in over 400 on-site sessions for strata owners to provide information on the no-interest repair loan program and the PST Relief Grant. Interpreters accompany HPO staff to the strata owner meetings in cases where a high percentage of the owners in a building are not English speaking.

Since the HPO's inception three years ago, the Web site has received 217,700 visits by different users. Over 58,000 inquires have also been addressed on the toll-free information line. Interpretation services in any language are also available on this 1-800 line.

Consumer surveys are being considered for the future to assess awareness of the HPO's programs and ascertain areas where more information would be beneficial to consumers.

OUTCOMES

Immediate

The HPO's consumer information initiatives bring about increased awareness and understanding of construction and consumer protection issues. Owners of leaky homes are better able to manage the repair process and are aware of the financial assistance available. Homebuyers learn what resources are available and what information to collect to allow them to make more informed purchasing decisions.

The availability of interpretation services ensures that owners of leaky homes who do not speak English are informed about the condition of their building, their duty to repair the damage, repair options and associated costs. Access to this information for non-English speaking owners facilitates the approval processes necessary to repair the homes in a timely manner.

Intermediate *(Goals)*

The HPO's on-going consumer information initiatives will continue to increase the awareness and understanding of consumer protection and construction issues. A greater number of owners of leaky homes will make use of the information available by the HPO to proceed through the building envelope renovation process.

Ultimate *(Strategic objectives)*

Consumer confidence will increase as more homeowners have better access to timely and up-to-date information that will assist them to make more informed decisions.

NEW AND IMPROVED TECHNOLOGY — SERVICE PLAN

Strategies and Activities

The HPO's building science research and education projects are planned and managed in partnership with the residential construction industry. The office is also a member of the Building Envelope Research Consortium (BERC) which conducts several research projects to bring about an improvement in residential construction.

Publications that provide residential construction information to the industry are planned and produced as research is completed.

The *Homeowner Protection Act* provides for the establishment of a Provincial Advisory Council on Homeowner Protection (PAC) which:

- provides advice to the CEO and the Board on the main program areas of the HPO
- identifies new and emerging issues in the residential construction industry and makes recommendations to the HPO, and
- advises on the research and education components of the HPO particularly as they relate to building science matters, Building Code, cost effective building techniques and consumer education.

PAC was formed in 1999 and has representation from industry, labour, professionals, warranty insurance companies, local government and homeowner groups.

Working relationships with various educational institutions and agencies in the province have been developed to assist in building science research efforts and the possible delivery of future training programs for the industry.

Outputs

The HPO's current and completed research projects include:
- monitoring the effectiveness of new and remediated wall assemblies
- a study on leak-proofing windows
- a study on high-rise building envelope performance
- a study on building envelope drying rates for various wall assemblies
- a study of sheathing membrane performance
- a study on establishing a building envelope test hut
- seismic testing of rainscreen stucco systems

A publication titled *Land Use Planning and Weather Protected Buildings* was developed to serve as a best choices guide to encourage local governments to review their land use bylaws and other policy or design related documents to bring about the development of improved wall assemblies. Other publications are plan-ned as research efforts progress. Results of the building science research efforts will also be available though the HPO Web site and toll-free information line.

The 14-member Provincial Advisory Council meets regularly and advises the HPO on its research and education mandate.

In February 2000 the HPO held a one-day workshop on building envelope and building code issues. It was attended by over 40 individuals representing industry, government and professional organizations. Recommendations from this work-shop will be fed into future code development and research initiatives.

The HPO's research and education function is funded by builder license fees and contributions from sector organizations. The office has committed about $500,000 to residential construction related research and education projects.

OUTCOMES

Immediate

The commencement of building science research projects sets the framework for an improvement in residential construction over the long-term. The Provincial Advisory Council ensures that stakeholders have input into the research projects selected by the HPO.

The HPO, in partnership with CMHC and the Canadian Home Builders' Association of B.C. (CHBA BC), has developed a course for the residential construction industry involving building envelope technology. This course is being delivered in 2002.

The HPO's workshop on building envelopes and the building code held in February 2000 have lead to further discussions on the use and interpretation of the Building Code.

A Building Envelope Research Symposium held in October 2001 transferred the results of recent research findings to those who can use the knowledge in the field.

Intermediate *(Goals)*

As the HPO's research programs progress, the findings will continue to be developed into education and training materials for the industry. Technology transfer will result in improved construction standards and practices which will have a positive impact on both new home construction and building envelope renovations.

As more homes suffering from building envelope failures are repaired and the quality of construction increases, the HPO plans to contribute to building science research in areas other than building envelope performance.

Ultimate *(Strategic objectives)*

Building science research initiatives, when combined with education and training, will bring about an improvement in the quality of residential construction over the long-term. This consistent improvement will encourage increased consumer confidence.

EDUCATION AND TRAINING FOR INDUSTRY — SERVICE PLAN

Strategies and Activities

As research programs are completed, the results are prepared for dissemination to the residential construction industry which is delivered through workshops, seminars and publications. Collaborative efforts with the industry will help facilitate the development and delivery of these training programs.

Outputs

The HPO, in cooperation with CMHC and the Canadian Home Builders' Association of B.C., has developed the Building Envelope Solutions Theory and Practice (B.E.S.T. Practice) training course which provides building envelope technology and suggests best practices for the industry. The delivery of this course will occur in 2002.

In October 2001 the HPO, in partnership with CMHC, the Urban Develop-ment Institute, BERC and the BC Building Envelope Council, held the province's first Building Envelope Research Symposium to disseminate the results of recent building science research to the industry. This symposium was attended by over 400 industry representatives.

Other information sessions and courses will be available as research progresses. Planned industry surveys will assist the HPO to assess the usefulness of the training programs offered and provide necessary feedback for future programs.

OUTCOMES

Immediate

Education and training over the short-term will increase awareness of construction quality issues. The industry will have the knowledge to implement new or improved technologies.

Intermediate *(Goals)*

Over time, a greater number of builders will have access to improved technology. New skills and improved construction practices will result in more effective building envelope repairs and new home construction.

Ultimate *(Strategic objectives)*

Training and education will bring about a long-term improvement in the quality of residential construction. As construc-tion quality increases and insurance claims for construction defects decrease, consumer confidence in the industry will be restored.It is anticipated that education and training courses for licensed residential builders and building envelope renovators will be required in future years. Improved construction practices will also decrease the number of home warranty insurance claims in the long-term.

Strategies and Activities

The Homeowner's Reconstruction Loan Program was initiated when the office opened in October 1998. Its purpose is to provide no-interest repair loans to owners of leaky homes whom otherwise might have lost their homes due to the cost of repairs. In its first three years of operation, the HPO received 8,146 applications from homeowners and 35 applications from leaky co-operative housing.

The PST Relief Grant is administered by the HPO on behalf of the province. This tax-relief rebate is available to all owners of leaky homes that have completed building envelope repairs to their homes on or after July 28, 1998, the date the *Homeowner Protection Act* was passed.

The HPO has received PST Relief Grant applications from 241 buildings representing 11,089 homes. The relatively low number of applications received to date indicate that many homeowners have not completed, or perhaps even started, repairs to their homes. It is also an indication of future demand for both the no-interest loan program and consumer information initiatives.

The HPO provides information to owners of leaky homes through free public information sessions, on-site meetings with strata owners and publications made available.

Outputs

Given the current loan application approval rate of 82%, the HPO has approved 6,470 no-interest homeowner loans and 30 loans to co-operative housing totaling $197 million. About 2% of the applications are in process at any given time. By the December 31, 2001 report date, the PST Relief Grant program had approved $3.8 million in grants to homeowners with completed building envelope repairs.

OUTCOMES
Immediate

Since the inception of the Homeowner's Reconstruction Loan Program, financial assistance has been available enabling homeowners to avoid foreclosure situations due to the excessive cost of repairs. This availability of financial assistance to those homeowners most in need has facilitated more rapid approvals of special assessments required for condominium repairs. Access to repair loans has, in some instances, also resulted in more rapid repairs which reduces the risk of further damage over time and subsequent increased repair costs.

Requirements for a completed building envelope renovation schedule signed by a licensed building envelope renovator and a qualified engineer or architect prior to the approval of a loan ensures that only viable, long-term repair solutions are carried out. This eliminates the possibility of inadequate repairs and significantly decreases the chances for multiple repair attempts.

As of September 30, 2000, the date the building envelope renovation regulations came into force, the HPO only approves no-interest repair loans on buildings which will be repaired by licensed building envelope renovators who provide home warranty insurance. This requirement is further assurance that only long-term repair solutions are implemented.

Intermediate *(Goals)*

The June 1998 Barrett Report estimated about 50,000 units are affected by the leaky condo crisis. The HPO, has been involved with 883 buildings (condominiums and co-operative housing) representing about 48,565 homes with an estimated total repair bill of $1.1 billion. As a greater number of homes are repaired and repair strategies selected are usually effective solutions, demand for the no-interest repair loan program will decrease over time. Once homes are repaired, their values will increase accordingly. As time progresses, the loans will be repaid by homeowners.

Ultimate *(Strategic objectives)*

Over time, all residential buildings suffering from premature building envelope failures will be repaired. The market value of these homes will increase accordingly. Most homeowners will regain financial stability.